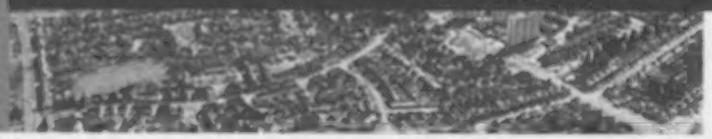
HOUSING MARKET OUTLOOK

Saskatoon CMA



Canada Mortgage and Housing Corporation

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NEW HOME MARKET

Single starts highest in decades

Following a 55 per cent surge to 1,485 units in 2007, single-detached starts will see an increase of just over 11 per cent in 2008, reaching 1,650 units. This will mark the strongest performance for Saskatoon's single-detached builders since 1979 when 1,763 single starts took place. Construction of single-detached units will back off to 1,450 units in 2009 as the effects of rapidly escalating prices and increased listings in the competing resale market are felt. The threat of rising inventories should also lead construction lower. Despite the moderation, 2009's production will be the third best in the last 30 years.

Saskatoon ended 2007 with total housing starts of 2,380 units, up 59 per cent over year-end 2006 and the highest number of total housing starts recorded since 1983. Much of

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the increase came on the single-detached housing side which saw the strongest year since 1979.

Rapid job growth, wage gains, and surging migration are the major contributing factors to the continued rise in single-detached housing starts. A scarcity of resale listings is also contributing to the robust level of single-detached demand. Buyers who would normally purchase an existing home have focused on the new housing market due to lack of supply on the resale side.

The demand for more land at a lower price has pushed housing construction outside the city limits. The communities that have benefited most from this activity are located close to areas of employment within the city allowing homebuyers to purchase a home at a lower price and with lower yearly taxes yet be within a short commute to their place of work.

In 2007, areas surrounding the city of Saskatoon captured almost 30 per cent of the total housing starts compared to a 25 per cent share in 2006. In 2007, the communities that saw most of these starts include Martensville with 320 starts and the Town of Warman with 182 starts. Housing starts in these communities should wane in 2008 as the supply of developed land falls short of demand.

Single-detached absorptions continue to keep up with the brisk pace of single starts. To the end of the first quarter, absorptions were running 55 per cent above the rate of absorptions during the first quarter of 2007. The supply of single-detached homes (defined as units under construction and units completed and unoccupied) is sufficient to last almost 11 months, compared to 10 months at this time last year. Of course, construction of these single units was at an early stage in the first quarter last year keeping absorptions down to an average of about 59 units per month. With a current rate of absorption averaging more than 90 units per month and a multitude of single-detached units now reaching the completion stage, expect the total supply to be reduced in the months ahead.

The elevated level of starts in 2007 and the first quarter of 2008 combined with a scarcity of skilled trades people have contributed to an extraordinary number of units under construction. At the end of March, more than 1,000 single-detached units were recorded at various stages of construction. This is the highest monthly level of construction activity recorded since 1979 when the baby-boom generation were moving through the new housing market.

Average price to reach $328,000 in 2008

At the end of 2008, the average price for new single-detached homes will reach $328,000 and 2009 will see a 9.8 per cent increase, raising the average price to $360,000. Rising labour costs combined with higher land development costs will be the primary contributors to the upswing in average price. Lengthy building periods due to labour shortages will continue to plague the industry and further contribute to price increases.

Based on the absorption of more than 1,000 single units in 2007, the average selling price approached $273,000. So far in 2008, average selling price is $313,500, a 24 per cent increase over the 2007 first quarter figure.

Rapid price escalation is leading to a shift in the share of sales occurring above $250,000, which is skewing the average price upwards. Most price ranges above $250,000 saw an increase in the number of absorptions while lower price ranges saw declines. At the end of the first quarter, absorptions in the $300,000 to $349,999 range, for example, have captured more than 31 per cent of the total absorptions in 2008, up from only 9 per cent in 2007.

Gain in New House Price Index leads nation in first quarter of 2008

Statistics Canada's New House Price Index (NHPI) measures the increase in the price of a house where the detailed specifications pertaining to each house remain the same between two consecutive periods. In 2007, the NHPI increased almost 39 per cent.

Statistics Canada reports that, in the first two months of 2008, the Saskatoon NHPI has led the nation with an astonishing year-over-year increase of 58.3 per cent. This also represents a record growth rate in the Saskatoon CMA. Most of the

increase originated in the price of the building which has escalated 66.8 per cent. Increases of this magnitude cannot be sustained and we forecast an increase of 25 per cent in 2008, moderating to 13 per cent in 2009. Nonetheless, Saskatoon's price escalation since 2007 should prove to be a dominant factor leading to lower housing starts in the future.

Rising prices driving first-time home buyers to condominium market

Multiple starts, which include semi-detached, row, and apartment units, had an exceptional year in 2007 with 895 starts recorded; almost 67 per cent above the 2006 starts number. In 2007, multiple starts were the highest seen in 22 years. March year-to-date Saskatoon multiple starts stood at 306 units, the highest number of multi starts seen at the end of March since 1984. For the entire year, we expect 900 multiple units to begin construction in 2008, before falling to 800 units in 2009.

In 2008, the apartment housing form will dominate multiple starts, surpassing the number of units started in 2007. Row housing will be the second most popular multiple. Most of these multiples will be condominium tenure designed for the empty-nesters and seniors market, as they offer such features as elevators and underground parking. However, new markets have opened for home builders involved in this market segment. Due to the rising price of single-detached housing, some first-time home buyers have turned to the apartment, row and semi-detached dwelling style as a more affordable homeownership alternative. Despite Saskatoon's low vacancy rate, few rental starts are expected as average rents are not high enough to justify the cost of new construction.

Supply of multiple units to remain high throughout 2008

Based on first quarter data, the supply of multiples stood at close to the 1,000 unit mark, which is 55 per cent above the amount recorded last year at this time. Nevertheless, the total supply has declined from the February 2008 figure due to the large number of absorptions in March. March multiple absorptions were the highest seen since October 2000 and easily out-distanced the March multiple starts figure leading to a decline in the supply.

As multiple starts are forecast to remain at an elevated level in 2008, we expect the supply of multiples to remain in the 900 to 1,000 unit range throughout this year with an eventual decline in 2009 as starts fall off and units are completed and absorbed.

Most of the multi supply is in the construction stage and the bulk of these (about 600 units at the time of writing) are apartment style. This represents a 37 per cent increase above the number of apartment units under construction in at the end of the first quarter in 2007.

In the case of row units, about 300 units are in the construction stage. These units are popular with first-time homebuyers due their ground orientation. Accordingly, we expect swift absorption upon completion.

Active market for row and apartment condominiums

At the close of 2007, over 30 per cent of the apartment condominium absorptions that took place in that year were in the $140,000 to $159,999 price range and 29 per cent were absorbed at selling prices in the $160,000 to $179,999 range. The average price for new apartment condominiums was close to the $160,000.

The average price for condominium apartments absorbed so far in 2008 (end of February) is now just over $161,500. Demand has been strong and pricier projects are entering the absorption stage. Production cost pressures, detailed earlier in this report, are adding further to the average new condominium price.

Row housing condominiums have seen strong activity in the lower-price ranges. At the end of February, the average price for a row housing unit is just under $147,000. Row housing absorptions have been most active in the price ranges less than $220,000. In early 2008, more than 70 per cent of row absorptions were found in this range. This would suggest that first-time home buyers are purchasing these units as, presently, there is only a small inventory of single-family resale listings available. This market for new row condominium units should retreat as more affordable, single-detached and apartment resale listings expand.

RESALE MARKET

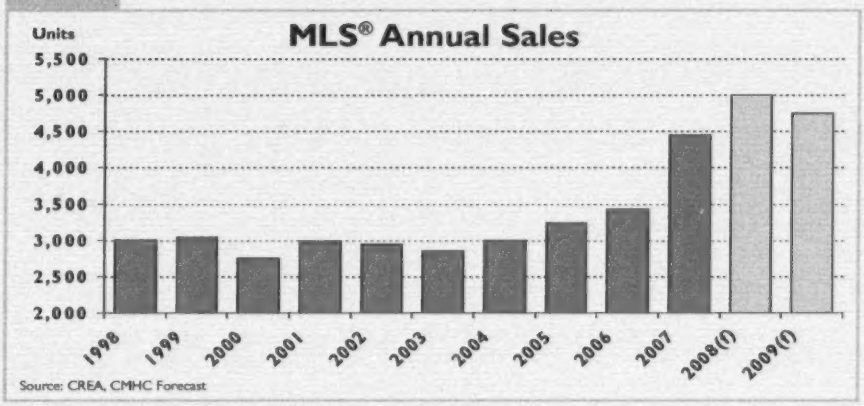
Resale market sales escalate in 2008 then fall back in 2009

Following a 30 per cent jump in 2007, Saskatoon's resale market will see another 12.5 per cent increase in sales to 5,000 units in 2008, making this year the highest number of sales on record. Sales will moderate somewhat to 4,750 units in 2009, due to rapidly escalating prices and weaker speculative demand. Slowing in-migration will also have its influence. Our 2009 forecast will still be a historically high level of resale transactions in Saskatoon.

Demand for resale housing has been supported by in-migration, rising weekly earnings, and other favourable labour market conditions. Also contributing to the elevated level of sales has been demand from investors seeking to take advantage of the potential for short term gains. Solid equity growth from the past few years is providing owners an opportunity to refinance and move-up. In the first few months of 2008, year-to-date sales were up 24 per cent, while seasonally-adjusted sales were up 17 per cent in the same time frame.

New listings are showing strength, with a 34 per cent up tick year-to-date February. Active listings are up a full 60 per cent compared to 2007 at this time. The volume of new listings in early 2008 is having an impact on the active listing inventory though the feverish pace of transactions has not slowed significantly as yet and bidding wars for the most desirable properties persist.

Figure 2



Listings have started to increase as empty-nesters and seniors move into newly constructed condominiums and others take possession of their new single-detached units. Speculative investment dollars flowing from neighbouring provinces has slowed and, as these out-of-province investors release their properties to the market, this will add to the level of inventory.

Resale condominium apartments have emerged as the housing form of choice for many first-time buyers due to the scarcity and soaring prices for single-detached housing. Year-to-date February, sales of condo apartments have more than tripled from that seen at this time in 2007. As well, this housing form continues to be popular with investors who purchase condominium apartments as rental investments.

Although the sales-to-active listing ratio is down over 15 percentage points compared to early 2007, this statistic remains firmly in the sellers' market zone. We expect the sales-to-active listings ratio to fall gradually as the inventory of active listings swells. A balanced state will not be reached until late 2008 or 2009.

Average resale price to increase by 18 per cent in 2008

Our forecast calls for an increase in the average residential resale price of 18.1 per cent in 2008, with a slower increase of 8.2 per cent in 2009. At the end of February, year-to-date average price is still escalating with a 40 per cent rise topping $262,000.

Record demand and listings shortages leading to bidding wars and sales above list price resulted in the average price increasing by 45 per cent in 2007 to $232,755. This far surpassed the previous record increase of 11.5 per cent set in 1997. The forecasted increase in 2008 of 18 per cent will be modest by comparison, but will still be among

the highest gains on record. Higher listings and buyer resistance to higher prices will result in weaker price gains in 2009.

RENTAL MARKET

Average vacancy rate to remain low in 2008 and 2009

After falling to a low of 0.6 per cent in 2007, CMHC is forecasting only a slight increase in the average vacancy rate in 2008 to one per cent with a minimal rise to 1.2 per cent in October 2009. The average vacancy rate will vary widely across the city but all areas will see a tight rental market compared to the most recent five years.

CMHC has identified a number of reasons for the decline in average vacancy rate from the 3.2 per cent recorded in the October 2006 survey. The most important factors are expanding employment and wages which have led to increased in-migration and rental household formation. Some projects that were suffering from deferred maintenance have also been rehabilitated, increasing their appeal and leading to declines in turnover and vacancy. As mentioned, escalating homeownership costs will also prevent some renters from making the move toward a home purchase.

The conversion of rental suites to condominiums has become a major issue to city government to such an extent that the City of Saskatoon has stopped or slowed approval of these projects. A number of projects have been caught in the process and many may not see approval in the forecast period. Resale data indicate these converted units were being purchased by first-time homebuyers as an alternative to the higher priced resale and new single-detached housing. With this source of more affordable housing removed, rental demand will be sustained.

Rent increases moderate compared to 2007

Following an $85 increase to the monthly two-bedroom rent in 2007, our forecast calls for an increase of $87 in the two-bedroom monthly average rent in 2008 and a more modest increase of $55 in 2009 bringing the average rent for a two bedroom suite to $780 by October 2008 and $835 in October 2009.

Low vacancies and the re-introduction of renovated suites will contribute to the rental hikes. Nonetheless, these increases are somewhat lower than those seen in 2007. Even with sustained demand in 2008 and 2009, we expect the average increase in rent to be more in line with rent increments seen in the years previous to 2007 as further increases in household income will be insufficient to sustain a repetition of the 2007 escalation in rent.

Both the City of Saskatoon and the Province of Saskatchewan have programs in place to encourage the building of market rental and affordable rental housing in the Saskatoon market place. The Province's program has produced rental housing units in previous years and therefore funds may not be available for future units. The City's rental incentive program is still in the planning stages and will probably have little impact on the market in 2008. There may be some starts flowing from this program in 2009.

ECONOMIC OUTLOOK

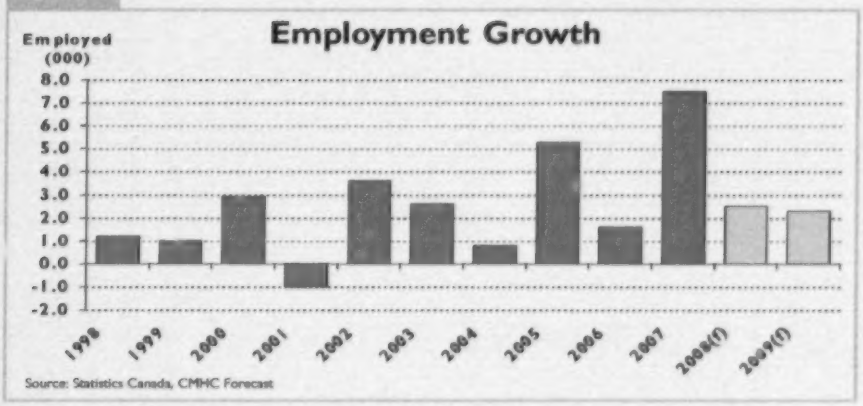
Employment growth falls off as economy cools in 2008

CMHC is forecasting a cooler economy in 2008 after the vigorous growth in 2007. Nevertheless, employment gains of 2,500 jobs in 2008 followed by 2,300 in 2009 will lead the province and provide support to housing demand throughout the forecast period. As employment slows its climb, unemployment will see a modest up tick.

Turning to specific industries, Saskatoon's service sector dominated employment growth in 2007. Retail trade escalated by 2,300 employed, buoyed by consumer spending. Education saw an additional 3,600 positions.

Full-time, as opposed to part-time employment, saw the biggest employment increase in 2007. Full-time job growth was fairly evenly spread between younger and older age groups thus underpinning both ownership and rental housing demand.

Figure 3



Source: Statistics Canada, CMHC Forecast

Saskatoon's labour market has started the year with a jump of 3,600 jobs by the end of the first quarter. Labour force growth fuelled by in-migration underlies the escalation in employment thus far. As in-migration drops off, the rate of employment growth will slip from that seen in 2007 and average employment will settle to the forecast level.

The goods sector captured all of the gains thus far with the service sector falling off 1,700 jobs compared to the year-to-date average employment in 2007. Construction and manufacturing employment fared well with increases of 1,600 and 2,000 jobs respectively.

Building permits up in early 2008

The dollar volume of building permits saw a 76 per cent increase in 2007 compared to 2006. Residential permits almost doubled over the 2006 year end number. Industrial, commercial, as well as institutional and governmental permits also saw significant increases.

The dollar volume of all types of building permits saw a 15.6 per cent increase by February 2008 compared to the first two months of 2007. Residential permits were down almost ten per cent by the end of February. Commercial permit dollar volume more than doubled and industrial, commercial, as well as institutional and governmental permits saw increases. As these projects are completed, permanent jobs will be created in these sectors, further supporting housing demand.

Net migration to remain positive in 2008 and 2009

After an impressive rebound, net migration will moderate somewhat in 2008, following the general trend forecast for the province as a whole. Net migration will remain positive in 2008 and 2009 after reaching an estimated high of 3,700 persons in 2007.

MORTGAGE RATE OUTLOOK

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

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Forecast Summary Saskatoon CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	3,246	3,430	4,446	5,000	12.5	4,750	-5.0
MLS® New Listings	4,908	4,637	5,816	5,900	1.4	5,900	0.0
MLS® Average Price ($)	144,787	160,577	232,754	275,000	18.2	297,500	8.2
New Home Market							
Starts:							
Single-Detached	751	959	1,485	1,650	11.1	1,450	-12.1
Multiples	311	537	895	900	0.6	800	-11.1
Starts - Total	1,062	1,496	2,380	2,550	7.1	2,250	-11.8
Average Price ($):							
Single-Detached	213,464	239,365	272,802	328,000	20.2	360,000	9.8
Median Price ($):							
Single-Detached	198,177	219,687	256,568	305,000	18.9	335,000	9.8
New Housing Price Index (% chg.)	5.6	9.1	38.8	25.0	-	13.0	-
Rental Market							
October Vacancy Rate (%)	4.6	3.2	0.6	1.0	-	1.2	-
Two-bedroom Average Rent (October) ($)	584	608	693	780	-	835	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	126,400	128,000	135,500	138,000	1.8	140,300	1.7
Employment Growth (%)	4.4	1.3	5.9	1.8	-	1.7	-
Unemployment rate (%)	5.0	4.4	4.0	4.2	-	4.0	-
Net Migration [1]	970	3,721	4,500	3,500	-	2,800	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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